

**MINUTES OF THE
MARICOPA ASSOCIATION OF GOVERNMENTS
TRANSPORTATION POLICY COMMITTEE MEETING**

October 15, 2008
MAG Office, Saguaro Room
Phoenix, Arizona

MEMBERS ATTENDING

Mayor Steven Berman, Gilbert, Chair
Mayor Marie Lopez Rogers, Avondale,
Vice Chair
Councilmember Ron Aames, Peoria
Kent Andrews, Salt River Pima-Maricopa
Indian Community
* Councilmember Maria Baier, Phoenix
Vice Mayor Gail Barney, Queen Creek
Stephen Beard, SR Beard & Associates
* Dave Berry, Swift Transportation
Jed S. Billings, FNF Construction
Mayor James Cavanaugh, Goodyear
Mayor Boyd Dunn, Chandler
Mayor Hugh Hallman, Tempe

Eneas Kane, DMB Associates
* Mark Killian, The Killian Companies/
Sunny Mesa, Inc.
Mayor Mary Manross, Scottsdale
David Martin, Citizens Transportation
Oversight Committee
Mayor Jackie Meck, Buckeye
David Scholl
Mayor Elaine Scruggs, Glendale
Mayor Scott Smith, Mesa
Mayor Lyn Truitt, Surprise
Supervisor Max W. Wilson,
Maricopa County
Felipe Zubia, State Transportation Board

* Not present
Participated by telephone conference call
+ Participated by videoconference call

1. **Call to Order**

The meeting of the Transportation Policy Committee (TPC) was called to order by Chair Steven Berman at 4:03 p.m.

2. **Pledge of Allegiance**

The Pledge of Allegiance was recited.

Chair Berman noted that Vice Mayor Gail Barney, Mayor Hugh Hallman, and Mayor Scott Smith were participating by teleconference.

Chair Berman announced that materials for agenda item #5 were at each place.

Chair Berman noted that transit tickets for those who used transit to attend the meeting and parking garage ticket validation were available from MAG staff.

3. Call to the Audience

Chair Berman stated that an opportunity is provided to the public to address the Transportation Policy Committee on items that are not on the agenda that are within the jurisdiction of MAG, or non action agenda items that are on the agenda for discussion or information only. Citizens will be requested not to exceed a three minute time period for their comments. An opportunity is provided to comment on agenda items posted for action at the time the item is heard.

Chair Berman recognized public comment from Woody Thomas, who noted a *Wall Street Journal* article that transportation funds are plummeting as drivers cut gas costs. He said that he is a member of the South Mountain Corridor Association Team for Loop 202. At their meeting the team was advised that the cost for the corridor could exceed \$2 billion, and only \$1.2 billion was allocated for it in Proposition 400. Mr. Thomas expressed his concern that as the economy changes, the needs continue and problems are magnified. He noted an article titled, "Transit Jobs are Key to the Future Valley Leaders Say," which appeared in the September 10, 2008, *Arizona Republic*. Mr. Thomas stated that in May, he and Mayor Lopez Rogers attended a meeting where Marty Shultz was moderator. It was stated at the meeting that 70 percent of transportation dollars should go to transit. He commented that as the economy falters and the need to address global warming continues, transit seems to be the answer. Mr. Thomas stated that only \$5 million was included in Proposition 400 to study commuter rail. He commented that the T.I.M.E. Coalition says we need to rely on sales tax as a funding source, but with retail sales dropping, he did not feel this was the answer. Mr. Thomas spoke about the pressures exerted by developments, and developers should be the source of paying the costs. Chair Berman thanked Mr. Thomas for his comments.

4. Approval of Consent Agenda

Chair Berman stated that agenda items #4A and #4B were on the consent agenda. He stated that public comment is provided for consent items. He noted that no public comment cards had been received. Supervisor Wilson moved to recommend approval of the consent agenda items #4A and #4B. Councilmember Aames seconded, and the motion carried unanimously.

4A. Approval of the July 16, 2008, Meeting Minutes

The Transportation Policy Committee, by consent, approved the July 16, 2008, meeting minutes.

4B. Project Changes: Amendments and Administrative Modifications to the FY 2008-2012 MAG Transportation Improvement Program and the FY 2009 Arterial Life Cycle Program

The Transportation Policy Committee, by consent, recommended approval of amendments and administrative modifications to the FY 2008-2012 Transportation Improvement Program, the FY 2009 Arterial Life Cycle Program, and as appropriate, to the Regional Transportation Plan

2007 Update, as shown in the attached table. The FY 2008-2012 MAG Transportation Improvement Program (TIP) was approved by the MAG Regional Council on July 25, 2007 and the FY 2009 Arterial Life Cycle Program (ALCP) was approved by the MAG Regional Council on June 25, 2008. Since that time, there have been requests from member agencies to modify projects in the programs. The proposed project changes to the FY 2008-2012 TIP are listed in the attached Table. The proposed amendment includes three projects funded by the Federal Safe Routes to School Program in Avondale, Gilbert, and Phoenix and a Federal High Priority Project in Scottsdale. The requested project changes include funding and schedule changes to Arizona Department of Transportation projects on Loop 303. The attachment also explains the ALCP project changes requests by Fountain Hills and Scottsdale to modify regional costs for project work phases. The amendment includes projects that may be categorized as exempt from a conformity determination and the administrative modification includes minor project revisions that do not require a conformity determination. The Transportation Review Committee (TRC) recommended approval of project changes in the attached table on September 25, 2008, with the exclusion of three Scottsdale projects (SCT04-009, SCT08-928, and SCT09-924) that MAG was made aware of following the TRC meeting. On October 8, 2008, the Management Committee recommended approval of project changes in the attached table.

5. Transportation Planning Update

Eric Anderson, MAG Transportation Director, provided an update on aspects of Proposition 400 (especially the freeway component), MAG's responsibility to keep the program in balance, the economy, revenue, the impact on bonding, cost inflation, updated program costs, possible options, and next steps.

Mr. Anderson addressed MAG's responsibilities. He said that as part of House Bill 2292 passed in the 2003 legislative session, the Transportation Policy Committee was put in state statute and given specific responsibilities, such as recommending project priorities, schedules for construction, and changes to the Regional Transportation Plan (RTP) to the Regional Council. Mr. Anderson advised that state law requires MAG to issue an annual report on the implementation of Proposition 400, requires that program costs and revenues be in balance for freeways, transit, and arterial streets, and requires that MAG approve material cost changes. Mr. Anderson stated that federal transportation law requires that the RTP and Transportation Improvement Program (TIP) must be financially constrained, and both must pass air quality conformity.

Mr. Anderson noted that the requirement for the annual report has been in state statute since 1992, as was the requirement to keep costs and revenues in balance. He noted that this allows time to rectify issues or take advantage of opportunities. Mr. Anderson stated that the program's current situation is similar to that of the 1980s when revenue was lower and costs were higher, but today, there are 17 years left in the program to deliver what we can with available resources.

Mr. Anderson displayed a chart that showed Proposition 400 sales tax revenues. He said that ADOT researched the sales tax base in Maricopa County back to 1960, and up until the last

fiscal year, found it had never declined. Mr. Anderson noted that FY 2008 transportation sales tax revenue collections fell by 3.2 percent, and 11 of the last 12 months have seen negative growth. He reported that revenue in the first two months of FY 2009 decreased – 11.2 percent in July 2008 and about nine percent in August 2008 – with 10.2 percent decline year to date. Mr. Anderson advised that they are tracking these numbers closely because this is a major source of revenue for the Proposition 400 freeway program.

Mr. Anderson displayed a map that showed homes with negative equity in the metro area. He said that 40 percent of the housing bought in the last five years has negative equity. Mr. Anderson noted that housing equity is a component of consumer confidence, and negative equity results in consumers tending to not make major purchases. He stated that this same tendency was seen due to fuel costs, and people changed their spending habits by doing such things as canceling magazine subscriptions, and reducing purchases of luxury items and trips to restaurants, etc.

Mr. Anderson displayed a graph of homes in the Maricopa/Pinal Metropolitan Statistical Area that sold for a loss. He said that in the second quarter of 2008, 52 percent of homes sold were sold at a loss, and 38 percent of homes sold were foreclosures. He noted that the inventory of foreclosures continues to increase as the number of foreclosure notices is still exceeding the number of foreclosed houses sold.

Mr. Anderson displayed a chart of construction taxable sales at the state level and commented that construction activity peaked a couple of years ago and housing peaked in late 2006 and has been in a steep decline since. He then addressed taxable sales on residential and nonresidential (commercial and industrial) construction, by saying that he thought there would be a decline in commercial construction and an increase in retail vacancies. Mr. Anderson commented that the delay in commercial construction could be the result of the difficulties in finding financing. He added that he expected a decline in nonresidential construction in the next 12 months as a result of housing non-equity.

Mr. Anderson stated that in mid-2006, motor vehicle sales statewide totaled \$800 million per month and noted that this figure has declined to \$500 million per month – almost a 40 percent decrease. He stated that this not only impacts the sales tax collection, it also impacts the vehicle license tax (VLT), which is a part of the Highway User Revenue Fund (HURF) and a source of revenue to cities and towns. Mr. Anderson stated that staff will be monitoring these numbers closely.

Mr. Anderson noted that there has not been a significant decline in home furnishing and building material sales and commented that he felt it would decline even more as the impacts from the housing market are felt.

Mr. Anderson stated that home values in the metro area are down almost 20 percent, with some in Pinal County approaching 30 percent. He commented that this has long-term implications for future spending. Mr. Anderson said that when he participated in an expert panel at ADOT in August 2008, there was a sense that relief in the housing market might occur by 2010, but at this point, he thought it could be longer. He stated that the economy in the

metro Phoenix area has been vibrant; it usually goes into economic downturns earlier than nationally, and rebounds faster than nationally. Mr. Anderson stated that unlike the economic situation in the late 1980s when the problems were relevant to institutional investors and developers, this time the damage is at the consumer level impacting individual consumer buying decisions and he felt recovery could take longer.

Mr. Anderson stated that the FY 2007 transportation sales tax revenue came in under projections, and the FY 2008 collection, which was less than the FY 2007 collection, came in at \$379 million, about \$30 million under projection. He added that he thought the FY 2009 collection may be flat.

Mr. Anderson noted that there has been a tremendous decline in the HURF, noting that \$1.34 billion was collected for FY 2008, about \$96 million less than projected. He explained that half of the HURF revenue goes to ADOT to fund department operations and state highway projects and half goes to cities, towns and counties, and added that the impact of lower HURF will be seen on local budgets. Mr. Anderson commented that the good news is that crude oil closed that day at less than \$75 per barrel, about the same price as one year ago. He indicated that he felt this will have a positive effect on the economy. He stated that oil prices have an overall effect on the economy, in such areas as industrial production and construction activities. Mr. Anderson advised that MAG is working with ADOT to revise the revenue projections for the half cent sales tax to 2025 and for HURF, both of which are essential to the freeway program. He added that HURF comprises about half gas tax, 20 to 25 percent of vehicle license tax, and the remainder registration and motor carrier fees.

Mr. Anderson stated that the implication of lower revenue means lower bonding capacity and noted that ADOT HURF debt service cannot exceed one-quarter of its revenue. Mr. Anderson also noted that the municipal bond market has seen a tremendous increase in financing costs. He stated that the effective interest rates on bonds over the last four weeks have increased about 1.5 percent, and that is if you can get financing. Mr. Anderson commented that the bond market is almost shut down because there is so much uncertainty in price bond issues. He advised that only \$4 billion were issued nationally in the last three weeks compared to \$6 billion for an average week. Mr. Anderson said that he thought RARF revenue over the life of the tax could be down more than \$1 billion, which means that the freeway revenues could be down another \$600 million with the revised revenue projections. Mr. Anderson stated that the revised revenue projections from ADOT are expected in a couple of weeks, after the October sales tax collections are reported.

Mr. Anderson stated that the Legislature, in order to balance the FY 2009 general fund budget, transferred \$126 million out of the HURF, (half of which was ADOT money) and from the State Highway Fund (all of which was ADOT money), to the Department of Public Safety (DPS). He commented that ADOT is now in a tight financial situation because of that. Mr. Anderson stated that the transfer also reduced ADOT's bonding capacity. He stated that last year, the Legislature authorized ADOT to issue 30 year bonds instead of 20 year bonds. ADOT thought it might have \$800 million more of bonding capacity, but today it is zero because of the transfers to DPS, lower HURF revenue, and the situation with the financial market.

Mr. Smith commented that when the transfers to DPS took place, the reasoning was that bonding could make up for the transfers and there would not be a large impact on the ADOT side of the budget, but now that ADOT cannot issue bonds, it is a direct negative impact.

Mr. Anderson stated that over the past five years, since the Regional Transportation Plan was adopted in late 2003, the cost of highway and street construction nationally has increased 77 percent, which is about four times the rate of general inflation. He advised that some moderations in prices are being seen. Mr. Anderson commented that at the August 2008 expert panel, the global market downturn was not yet apparent, and added that he thought that was coming and significant decreases in commodity prices could occur. He also noted that there is talk of a major stimulus package after the fall election or the first of the year, and added that a large part of the package might go for infrastructure. Mr. Anderson stated that areas with projects ready to go will be in a great position to take advantage of the package, and noted that this could be positive for the MAG region because it has a number of ready projects.

Mr. Anderson said that the prices for concrete, steel, and asphalt have risen significantly, but the biggest impact resulted from the increase in oil prices, which affects all aspects of construction. He noted that the price of asphalt is about \$800 per ton, and added that from the 1990s to about two years ago, the price was \$100 per ton. Mr. Anderson stated that availability of asphalt for road projects will continue to be an issue because manufacturers are choosing to make higher value products from the same material that is used to make asphalt. He indicated that asphalt is more important for local street construction than freeway construction because freeways use a concrete base.

Mr. Anderson reviewed the FY 2006 – FY 2025 freeway program revenues, which total \$17.7 billion over the life of the program. Included in the total is \$8.4 billion in the half-cent sales tax, which could decrease \$600 million in the new revenue projections; \$8.2 billion in ADOT funds, which could also decrease; \$638 million in federal funds; and \$473 million in STAN and other funds. Mr. Anderson noted that freeway program non-project costs total \$6.1 billion and include \$2.4 billion in debt service, \$3.5 billion in future inflation, and about 250 million in transfers and miscellaneous costs.

Mr. Anderson displayed a table of current freeway costs by corridor and noted that ADOT reviewed the costs and updated the total to about \$15.4 billion, which is an increase of \$6 billion, or 64 percent, from the RTP cost of \$9.4 billion. Mr. Anderson noted that the two sets of charts at each place included all projects that make up the freeway program. He said that systemwide costs of \$1.5 billion include ADOT expenses for preliminary engineering, design change orders, risk management, right-of-way titles and plans, the landscape and litter pickup program, and \$350 million for replacing rubberized asphalt on a systemwide basis.

Mr. Anderson stated that a number of projects have been completed since the implementation of Proposition 400. He displayed a chart of RTP freeway program projects that have been completed, are underway, or advertised through FY 2009. He said that a couple of major projects are ready to go to bid, including a bid opening on a section of Loop 303 scheduled for next week, another bid due in January 2009 for Lake Pleasant Road to I-17, a design build project on the Red Mountain Freeway, and HOV lanes on Loop 101. Mr. Anderson advised

that \$2.1 billion are committed to freeway projects through FY 2009. Mr. Anderson noted that there is \$13.3 billion worth of RTP freeway program projects yet to be constructed for FY 2010 to FY 2025.

Mr. Anderson reviewed the summary of revenues and costs for the Proposition 400 freeway program for FY 2006 to FY 2026. With total revenues of \$17.7 billion and \$6.1 billion of non-project costs, the amount of net funds available is \$11.6 billion. Additional costs include \$2.1 billion of projects obligated through FY 2009, \$1.3 billion of systemwide project costs, and \$12 billion of planned road projects equals a deficit of \$3.8 billion overall to date. Mr. Anderson noted that this includes a higher cost for the South Mountain Freeway of \$2.6 billion and includes an I-10 project that is necessary to make the connection to the South Mountain Freeway. He commented that he thought there could be \$600 million less after the new projections are reported, so the \$3.8 billion deficit could increase to about \$4.5 billion.

Mr. Anderson stated that the revised revenues from the half-cent sales tax, HURF, ADOT and federal funds, and bonding will be incorporated into future forecasts. He noted that they have a couple of major projects that need revisions to their schedules. Mr. Anderson stated that the South Mountain Freeway EIS has been underway since 2001 and it was supposed to be completed in 2006-2007. He indicated that his best guess was another two to three years until the record of decision, and added that MAG will work with ADOT to determine a reasonable assumption when the EIS will be completed and work will actually begin. Mr. Anderson stated that the EIS and design concept studies are underway for the I-10 Collector/Distributor System/Broadway Curve project, which is a \$700 million Phase I project. He stated that work will not start this fiscal year as planned, and the schedule needs to be refined. Mr. Anderson advised that as they outline cash flows for each year of the program, they look at financial resources. He indicated they do not want to tie up hundreds of millions of dollars on projects that might not begin, so they want to move them further out in order to have financial resources available for other projects in the program.

Mr. Anderson then addressed strategy options. He said it is important to pay attention to the situation, but also important to not make radical changes that could be regrettable later. Mr. Anderson commented that he felt the program was in good shape in the near term, perhaps for the first ten years, and added that he thought the problems would be in the last half when higher costs and lower revenue would impact the program. Mr. Anderson stated that the important part of the process is the awareness of the problems and that steps are being taken to deal with them.

Mr. Anderson stated that one of the federal strategies includes reauthorization of the federal transportation act, SAFETEA-LU, which expires in September 2009. He indicated that he has heard there has been discussion of collapsing 100 programs into eight or ten programs, doing away with designations of funds as either highway or transit funds and designating them as transportation funds, and enabling states or metropolitan planning organizations to put the funds to use where they make the most sense for their areas. He added that he was not sure these changes would happen, as Congress generally moves incrementally.

Mr. Anderson stated that another federal strategy is the possible establishment of a freight trust fund to make more effective use of ports and freight corridors. He noted that there is a high probability of this trust fund being established and added that it could mean assistance for I-10, which is probably the premier east/west corridor in the country. Mr. Anderson stated that there could be an opportunity for a joint effort regionally and statewide to improve not only I-10 with federal funds, but also SR-85 and I-17. He stated that it is important to have a well-thought out federal strategy that maximizes our ability to get our fair share of federal funds for Arizona.

Mr. Anderson stated that another federal strategy is environmental streamlining. He said that environmental work continues to be a big issue. Mr. Anderson commented that the consultant costs for the South Mountain EIS run about \$10 million to \$12 million, but the real cost of environmental work is not necessarily the cost of the studies, but every year the EIS is delayed it costs hundreds of millions of dollars in increased construction costs and the benefits of not having the facility.

Mr. Anderson stated that the state budget is in crisis, and said there will probably be a \$1 billion shortfall in FY 2009 and perhaps higher in FY 2010. He advised that receiving any STAN funds is highly unlikely. Mr. Anderson stated that Arizona legislative strategies could address appraisal methods, and added that one of the recommendations of the 1991 performance audit that was not implemented and there might be merit to pursue is the “before and after” appraisal method. Mr. Anderson noted that in the Arizona appraisal process, a seller gets fair market value and if it is not a total take, the value of the leftover property also is enhanced by the facility. He explained that this method allows ADOT to allocate a portion of the purchase price of property back to the remaining parcel. Mr. Anderson reported that 17 states and the federal government allow this method, and remarked that he thought it might be an opportune time to go to the Legislature to allow Arizona to implement this, especially since \$3 billion of right-of-way is included in the RTP. He stated that in the 1980s and 1990s, attempts were made to implement this process, but it never got out of committee.

Mr. Anderson stated that another legislative strategy could relate to DPS transfers. He advised that there are statutory limits of \$10 million they can transfer from the HURF fund and \$10 million from the state highway fund; however, \$126 million was transferred in 2009 and it had a significant impact on ADOT's program.

Mr. Anderson then addressed management strategies that might be implemented. He said that one of these is a policy review of draft DCRs. Mr. Anderson stated that when ADOT consultants and engineers do a DCR, features are put into the design that lock in the scope, and the project could come in at a higher cost than expected. Mr. Anderson stated that the DCR may not come back through policy committees and suggested that some of the scope changes might merit discussion from a policy perspective before the DCRs are finalized.

Mr. Anderson noted that EIS management practices could be revised. He remarked that some EIS processes go on for extended periods and suggested that there could be more schedule discipline and more briefings to the TPC on the status of projects.

Mr. Anderson stated that external peer reviews could bring in experts to provide some expertise on projects before spending millions of dollars. He said they are trying to be good financial stewards and save future money by doing projects better today.

Mr. Anderson stated that accommodation of future needs is similar to scope increase. Mr. Anderson gave some examples, for instance, the RTP includes six-lane freeways on Loop 303 and the South Mountain. With future demand, they think ten-lane freeways will be needed ultimately, especially on Loop 303. The question is whether right-of-way is purchased for the full ten lanes or only the right-of-way required for the freeway that will be built. Mr. Anderson observed that if all right-of-way is not purchased at the outset, development will preclude you from purchasing it in the future. Mr. Anderson stated that with the South Mountain, perhaps a narrower footprint to minimize impacts on neighborhoods might be considered. He stated that another area to consider is freeway to freeway ramps, and remarked that we are criticized for having one-lane ramps. Mr. Anderson stated that new freeways have two-lane ramps, and ADOT has indicated some might need three-lane ramps. He advised that retrofitting ramps is cost prohibitive – the cost of increasing a two-lane ramp to three lanes is \$80 million on a \$200 million project. The question is whether to build three lanes for future needs if only one or two lanes are needed today.

Mr. Anderson suggested program strategies the TPC might consider to balance the program. He said that financing of HURF funds, federal funds, ADOT funds, and bonding for eight years beyond the program were used for Proposition 300 projects. Mr. Anderson noted that bonding beyond 2025 for HURF and federal funds to complete Proposition 400 could add \$500 million to the program. He stated that another strategy could include extending the program or delaying projects. Mr. Anderson recalled that projects in the 1990s were deleted, but elongating the program provides the opportunity to keep all projects in the plan, and if additional money is found, projects could be accelerated. He commented that their objective is to keep all projects identified in Proposition 400 in the program.

Mr. Anderson stated that another strategy is to explore scope adjustments by not building all services right now and come back and do them later, however, there is additional cost to doing that.

Mr. Anderson stated that value engineering could present an opportunity for cost savings. He said that ADOT uses value engineering, but only in the context of DCRs and final designs. Mr. Anderson stated that there may be a way to boost value engineering to squeeze more savings.

Mr. Anderson stated that another option is perhaps do something from an interim perspective, such as build a parkway like the Arizona Parkway that was mentioned in the Hassayampa Valley study, instead of a full freeway. He advised that this type of parkway can carry about 100,000 vehicles per day, which is near the volume of a freeway that carries 140,000 to 150,000 vehicles per day. Mr. Anderson stated that by opting for a parkway, a facility would be in place and built for substantially less money and in the future it could be converted to a freeway or stay a parkway forever. He commented that a parkway takes less right-of-way than a freeway and can be built at a marginal cost increase over conventional arterials. Mr.

Anderson noted that even though it does not have all the features of a full freeway, it could work pretty well in some cases. Mr. Anderson commented that at this point, he was not recommending that any planned freeway be done as a parkway, but he included it as an option to keep in mind. He then explained that the Arizona Parkway concept of no left turns at intersections allows more traffic volume. Mr. Anderson stated that another concept they looked at is a 60-foot median, which could be used as a transit corridor to maximize the use of right-of-way.

Mr. Anderson then reviewed the major amendment requirements defined in state law, and noted that a major amendment is required when a major freeway or fixed guideway is added or deleted, or a one-mile segment or \$40 million segment is deleted from the RTP. Mr. Anderson stated that there are firewalls that restrict sales tax funds from being moved between the freeway, transit, and street modes. He stated that if a road project is deleted, consideration needs to be given to alternatives in the same modal category that will relieve congestion or improve mobility in the same general corridor. Mr. Anderson stated that if a reasonable alternative is identified, before the Regional Council takes action on the recommendation of the TPC, the proposed amendment is subject to a required consultation process by the State Transportation Board, the Maricopa County Board of Supervisors, and the Regional Public Transportation Authority, by a majority vote, to approve, disapprove, or approve with modification the proposed amendment. He added that the proposed amendment also can be sent to the cities, towns and Indian communities, although this is not required. Mr. Anderson stated that if the three entities do not agree with the proposed amendment, a supermajority of the TPC is required to override their actions, in order to forward it to the Regional Council. He stated that if no reasonable alternative is identified, then the amendment to delete the project is subject to the required consultation process.

Mr. Anderson stated that the next steps include incorporating revised revenues projections; reviewing the bond program in light of revised revenues and financial markets; analyzing future right-of-way and construction cost inflation; analyzing project options such as interim, staging, or reducing scopes; and continuing policy discussion at November TPC meeting. Mr. Anderson noted that discussion of program options are anticipated in January or February, when staff will bring back options based on the direction given by the TPC in October and November. He stated that if any major amendments to the RTP are proposed, this will trigger a 60-day required consultation process, which would be followed by incorporating the revised freeway program into the RTP. Mr. Anderson stated that the ultimate goal is to schedule the updated RTP for approval of an air quality conformity analysis in March or April 2009. He stated that staff can provide technical assistance and they are looking for political guidance from the TPC. Chair Berman thanked Mr. Anderson for his presentation and asked members if they had any questions or comments.

Supervisor Wilson asked if the program could have enough plans in place in order to take advantage of decreases in commodity prices. Mr. Anderson replied Supervisor Wilson brought up an excellent point. He indicated that ADOT started working on longer term projects so projects are ready to go forward, for example, the HOV lanes on the remaining Loop 101 system. He noted that the cost is running close to the estimates. Mr. Anderson stated that Loop 303 is one of the program's larger projects and the final public hearing is

scheduled this fall. He added that ADOT anticipates completion of the environmental assessment by the end of the year, and once completed, the corridor will be ready to go. Mr. Anderson stated that MAG will continue to work with ADOT to build up the inventory of ready projects, and if there is a stimulus package, additional federal funding, or lower commodity prices, the projects will be ready to proceed.

Supervisor Wilson also noted that the program also might capitalize on the decrease in property values and added that it might be an opportune time to take a look at the properties that the program needs to acquire.

Mr. Scholl asked if MAG is mandated to bring the plan is back into balance within a required timeframe, for instance, by the next regular cycle in March or April. Mr. Anderson replied that the way the state law reads, the department on the freeway side shall develop a budgeting process that ensures the revenue and costs are in balance. He said he thought it was unlikely a lawsuit would be filed if it did not happen by a certain date, because he thought that it goes back to the intent, which is to have early identification that there is a problem and start mobilizing to deal with the problem. He expressed that he did not think there is a need to balance a \$4.5 billion program in three months, but thought a multi-staged solution was appropriate. Mr. Anderson stated that the test will be whether the gap is closing over time. He indicated that he thought MAG will have time to work on strategies.

Mr. Scholl stated that Mr. Anderson had indicated an imbalance of \$3.5 billion to \$4.5 billion, which was based on a three percent increase in construction costs, when over the past five years, the increase has been closer to 15 percent. He asked if the imbalance could be much higher once the cost estimates are revised. Mr. Anderson replied that he did not think so, and added that staff had a discussion with ADOT on that very point. He stated that historically, construction costs track the general rate of inflation, which is normally one to one, but this is the first time we have seen this disconnect. Now we are seeing there is an adjustment back on the pricing side. Mr. Anderson advised that the downturn in construction prices could provide significant relief, and added that they do not want to do something with the cash flow that artificially creates a problem. He commented on the difficulty to make projections 20 years out and he thought we need to make assumptions about right-of-way cost inflation, construction cost inflation, and general price inflation, monitor them, and make adjustments as needed.

Mr. Scholl stated that in the economic downturn of the 1990s, ADOT encouraged incentivized private groups to join with municipalities to create public/private partnerships. He noted that he had not seen this listed as a possible strategy and asked if it had been precluded or could be an option. Mr. Scholl stated that with lower land values, some owners might bring in less than market value if they could see some acceleration of projects. Mr. Anderson indicated that ADOT is always looking for partners on the right-of-way side, to provide right-of-way at less than market value or to donate right-of-way. He stated that one issue on right-of-way valuation is the appraisal process, which is historical and looks behind. He stated that ADOT's challenge will be reflecting the market value of land today with the historical trend, and added that because ADOT is a public agency, it does not have a lot of negotiating room. Mr. Anderson stated that MAG staff will work with ADOT on this. Mr. Anderson, in

referencing public/private partnerships, said that options could include toll roads or tolling HOT lanes, which is a potential option for I-10. Mr. Anderson advised that with the public/private partnership market, some of the rating agencies are downgrading the private partnership financings due to the downturn in driving. Combined with the turmoil in the financial markets, there may not be as much private capital as people thought.

Mr. Kane stated that picking a trend line to measure financial performance on the revenue side and cost side when aimed in the wrong direction can give an incorrect vision of the program. He said that he would like to understand as we model what is the curvature of the market recovery of the revenue side we anticipate. If we are measuring against the 20-year horizon of the tax, which could be a longer period if construction is extended, after three to four years we could assume the revenues will return to the previous point; however, in the last couple of downturns they returned to an upward trend line. Mr. Kane stated that he would like to understand how big a hole we are trying to fill with the strategies we are discussing. He commented that cost is one piece of the program, but revenue is another, and it seems we are measuring revenue against a shorter window. Mr. Anderson replied that to do that kind of analysis the new projections would be needed, and they hope to have them by the November TPC meeting.

Mr. Kane stated that in the private world, most of us are trying to get to the point of easier predictions. He commented that he thought it was an excellent time to discuss the strategies on road design, DCRs and potential other designs, especially in light of environmental requirements that have increased over the years. Mr. Kane stated that the South Mountain Freeway process reminded him of the Squaw Peak Parkway process and having a less impactful design on adjacent neighbors. He remarked that this would help in other review processes. Mr. Kane stated that this is happening in other states that have environmental reviews. When we are talking about ten-year EIS programs at a cost of \$20 million, maybe we should look at standards and being more efficient on land. Mr. Anderson stated that some designs are land intensive and some designs are land extensive and this may require another way of thinking about being more sensitive in terms of neighborhoods and using lands intensively.

Mayor Cavanaugh referenced Mr. Scholl's comments on right-of-way and donated right-of-way and said that it seemed a more serious study of determining the opportunity for donated right-of-way might be in order. He added that there could be opportunities that we might not want to let go by. Mayor Cavanaugh asked about amendments to the RTP when another mode is selected. He asked if the savings realized from that selection remain in the same geographic area. Mr. Anderson stated that money is intended to be spent in the same area to solve mobility issues. Mayor Cavanaugh stated that his point is that the calculation of savings is based on the cost of the selected option compared to the 2003 projected cost of the deselected option. Mr. Anderson commented that he was not sure of the intent of the law in that regard. Mayor Cavanaugh stated that the Committee needs to know that before it gets deep into discussions because there could be serious confrontations if members do not agree on this point. Mr. Anderson gave as an example, South Mountain Freeway by saying that using the original budget of \$1.1 billion, if the current cost is estimated at \$2 billion and an alternative

is found with a cost of \$1.1 billion, there are no savings. He added a caveat that some estimates have been adjusted and some have not.

Mr. Martin said that he had a conversation with Congressman Harry Mitchell, who indicated that the Congressional delegation had been called back to Congress on November 17th to discuss an economic stimulus package, and they will be talking about projects that could be qualified for the package. Mr. Martin reported that they are looking for projects that could start construction 30 to 90 days after the passage of the bill. Mr. Martin noted that AASHTO sent a memorandum to Congress on January 30th that there are \$760 million in Arizona projects that could hit the ground running. He asked if there were projects that fit the criteria and could a concerted effort be made to seek funding for them? Mr. Anderson replied that having projects ready to go to bid in 30 to 60 days is highly problematic; it assumes they have final design. He added that if we had a six-month window, there would be a lot of projects ready, and with a 12-month window, even more projects would qualify. Mr. Anderson indicated that ADOT is trying to get more projects ready but the design process takes time.

Mr. Martin suggested making a federal strategy to backfill interstate projects and move as a public/private coalition to seek funding for interstates funded by Proposition 400 if we cannot move forward in 30 to 90 days on SAFETEA-LU reauthorization, specifically as it relates to interstate projects for the region.

Councilmember Aames stated that he thought the only option would be to shift funds if Congress goes to such a limited time. He commented on another aspect – that population projections seemed to be missing, and added that a lot is based on growing population and meeting growing needs. Councilmember Aames stated that if the population drops off or the rate slows, there is no need to move as fast, which could provide some balance. Mr. Anderson stated that he thought population growth short-term would be slower than expected and remain slow until about 2011 or 2012. He said that a slowdown in migration into the state will also occur, largely due to the domino effect resulting from the downturn in the housing market. He added that people cannot relocate if they cannot sell their home. Mr. Anderson stated that the slowdown in growth also impacts revenue. We are behind on freeway construction and transit, and as growth slows, highways become less congested but we still need to keep pace with our construction activity.

6. 2008 Annual Report on the Status of the Implementation of Proposition 400

Roger Herzog, MAG Senior Project Manager, stated that Arizona Revised Statute 28-6354 requires that MAG issue an annual report on the status of projects funded by the half-cent sales tax authorized by Proposition 400. He said that the 2008 Annual Report is the fourth report in this series. Mr. Herzog stated that a public hearing on the report is scheduled for November 2008. He added that the summary of findings was included in the agenda packet and the complete report is posted on the MAG Web site. Mr. Herzog also noted that some figures in his report were derived earlier than the figures presented by Mr. Anderson, so there could be differences.

Mr. Herzog addressed the key findings of the Annual Report. For the category of regional revenues, he noted that fiscal year 2008 half-cent sales tax receipts were three percent lower than the receipts from FY 2007. He advised that this is the first decline in the half-cent sales tax since it began in 1985. Mr. Herzog stated that for July and August 2008, receipts were down 11.2 percent and 9.1 percent, respectively, and revenue from the gas tax was down about 2.9 percent.

Mr. Herzog stated that revenue projections are being updated, and will likely result in lower long-range forecasts. He noted that the federal transportation funding act expires in FY 2009, and its future structure represents a major uncertainty.

Mr. Herzog stated that for FY 2009-2026, the estimated future costs of \$6.312 billion for the Transit Life Cycle Program are currently in balance with projected revenues of approximately \$6.315 billion. Mr. Herzog noted that these figures reflect the status through 2008, but will be changing. He stated that costs are continuing to rise faster than anticipated, especially in the bus program, and revenues are not expected to keep pace, at least in the short term. If revenues continue to decline, new bus service implementation included in the RTP may be impacted in the future. Bus services that have been implemented previously will be reviewed to ensure that productivity goals are met.

Mr. Herzog stated that during FY 2009, RPTA will be examining closely the assumptions used in estimating both revenues and expenditures for the Transit Life Cycle Program, and making adjustments as may be necessary.

Mr. Herzog stated that for FY 2009-2026, the total estimated future regional reimbursements of \$1.703 billion for projects in the Arterial Street Life Cycle Program are in balance with projected revenues of \$1.864 billion. He said that project costs are increasing and local governments have had to make up the difference. Mr. Herzog stated that the inability to provide matching funds, and other scheduling and resource issues, have resulted in the deferral of a number of arterial projects by implementing agencies. Due to this, lead agencies have deferred the use of \$46 million in federal and regional funding from FY 2008 to later years. Mr. Herzog stated that it is anticipated that project scope changes and rescheduling may continue to occur in the future, as local jurisdictions continue to face a variety of fiscal issues.

Mr. Herzog stated that for FY 2009-2026, the unadjusted future costs of \$10.008 billion for the Freeway/Highway Life Cycle Program are currently in balance with projected revenues of \$10.273 billion. He advised that the impacts of construction cost increases and project scope changes on the Freeway/Highway Life Cycle Program are being evaluated, and noted that the new preliminary estimated program cost totals \$14.9 billion, significantly more than past estimates.

Mr. Herzog provided a breakdown of the \$14.9 billion cost estimate. He stated that the 2003 base planning estimate was \$8.5 billion. Mr. Herzog stated that the original inflation allowance was \$1.4 billion, and there is an additional \$2.3 billion price inflation, for a total of \$3.7 billion. He said that scope changes total \$2.7 billion and include \$1.3 billion of original contingency allowance and \$1.4 billion in additional scope changes.

Mr. Herzog stated that there is a gap of approximately \$3.3 billion between the updated cost estimate of \$14.9 billion and available funding of \$11.6 billion. He commented that this difference could be subject to future increases, depending on the outlook for inflation, facility design contingencies, further cost estimate refinements, and updated revenue forecasts. Mr. Herzog stated that given the potential deficit of approximately \$3.3 billion, a major effort to achieve a balance between future program costs and available revenues will be required. Potential approaches to achieving program balance could include enhanced financing methods, project phasing, extension of the programming period, and adjustment of project schedules. Chair Berman thanked Mr. Herzog for his report and asked members if they had any questions.

Vice Chair Lopez Rogers commented on the public hearing, and noted that one of the public hearings for the Transit Framework Study would be held in Avondale. She stated that holding the hearing in Avondale pleased them, but she felt if quality input is desired, more than six days notice is needed to get the public to attend. Vice Chair Lopez Rogers added that there is only one public hearing on the Study scheduled in the West Valley and more were needed. She stated that the public hearing process needs to be inclusive and expressed her concern that the short notice did not provide that inclusiveness. Vice Chair Lopez Rogers stated that transit is critical for them and said that she would like to move the date later or schedule additional public hearings.

Councilmember Aames commented that he liked to go to Avondale, but many Glendale and Peoria residents would not want to travel that far for the public hearing.

Mayor Meck stated his support for the comments made by Vice Chair Lopez Rogers and Councilmember Aames. He expressed that five days notice was ridiculous, and suggested that a hearing should be held in Glendale and a hearing held in a location between Glendale and Buckeye. Mayor Meck stated that he supported longer notice and more locations.

Mayor Scruggs stated that this was a big deal for them. She noted that even though both areas are growing rapidly, there are big differences between the Southwest Valley and the Northwest Valley. Mayor Scruggs asked how this could be resolved. Mr. Smith noted that MAG staff would work with member agency staff to add locations and lengthen the notice time. Mayor Scruggs asked when they would find out so they could use their networks to notify residents. Mr. Smith replied that MAG staff will stay in communication with member agency staff to find out days that work.

There being no further business, the meeting adjourned at 5:50 p.m.

Chair

Secretary